

Message Text

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ACTION EUR-12

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C O N F I D E N T I A L SECTION 1 OF 2 OTTAWA 3965

POUCHED INFO ALL CONSULATES IN CANADA

E.O. 11652: GDS

TAGS: ECON, CA

SUBJ: GOC BRIEFING ON ANTI-INFLATION PROGRAM

REF: OTTAWA 3931

1. SUMMARY. MICHAEL KIRBY, ASSISTANT PRINCIPAL SECRETARY (PLANS AND POLICY) TO PM TRUDEAU GAVE EMBOFFS EXTREMELY CANDID AND REVEALING BRIEFING OCTOBER 16 ON POLITICAL AND ECONOMIC CONSIDERATIONS THAT PROMPTED GOC TO ADOPT STRINGENT NEW ANTI-INFLATION PROGRAM. GIST OF HIS REMARKS WAS THAT PROGRAM DESIGNED TO BRING WAGES UNDER CONTROL (ALTHOUGH GOC WILL SELL PROGRAM AS PRICE AND WAGE RESTRAINT EFFORT) AND THAT PROGRAM REFURBISHES TRUDEAU IMAGE AS TAKE-CHARGE LEADER AND WIPES OUT ANY THREAT TO HIS POSITION AT UPCOMING LIBERAL PARTY CONVENTION. END SUMMARY.

2. KIRBY MADE FOLLOWING COMMENTS IN ANSWER TO SPECIFIC QUESTIONS BY EMBOFFS AND VOLUNTEERED SOME INTERESTING SIDE-LIGHTS ON LIBERAL PARTY PHILOSOPHY:

A. LEGISLATION (INTRODUCED OCTOBER 15, WITH EFFECT FROM
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OCTOBER 14) WILL NOT CONTAIN REFERENCE TO

BRITISH NORTH AMERICAN ACT, BUT GOVERNMENT LAWYERS WILL DEFEND CONSTITUTIONALITY OF NEW LEGISLATION ON BASIS ACT'S "PEACE, ORDER AND GOOD GOVERNMENT" PROVISIONS. (SOME LABOR LEADERS HAVE PUBLICLY STATED THEY MAY CHALLENGE ANTI-INFLATION PROGRAM AS BEING UNCONSTITUTIONAL.)

B. LEGISLATION WILL HAVE DEFINIT TERMINATION DATE (DECEMBER 1978) BUT WILL CONTAIN PROVISIONS FOR EXTENSION AND ADVANCE TERMINATION. PROGRAM CAN BE TERMINATED BEFORE DECEMBER 1978 BY ORDER-IN-COUNCIL BUT EXTENSION BEYOND THAT DATE WILL REQUIRE PARLIAMENT'S APPROVAL. HOWEVER, PARLIAMENT WILL NOT BE ABLE CHANGE PROVISIONS OF LEGISLATION, ONLY EXTEND DATE OF TERMINATION, AND TO PREVENT FILIBUSTER, LEGISLATION WILL PROVIDE FOR ONLY THREE-DAY DEBATE.

C. EIGHT OF TEN PROVINCES ARE READY ACCEPT GOC ANTI-INFLATION PROGRAM AND WILL PROBABLY SET UP OWN ANTI-INFLATION BOARDS COMPARABLE TO FEDERAL BOARD. B.C. PREMIER BARRETT ("SO DAMNED UNPREDICTABLE") MAY CHALLENGE PROGRAM GIVEN FACT HE FACES ELECTION WITHING THE YEAR, AND ALBERTA PREMIER LOUGHEED MAY ALSO BECAUSE HE HAS "SPECIAL POLITICAL CONSIDERATIONS" (KIRBY MADE CLEAR THAT LEBERALS EXPECT LOUGHEED TRY FOR PC LEADERSHIP AND MAY CHALLENGE GOC PROGRAM INNORDER ENHANCE HIS POSITION).

D. GOC EXPECTS PROVINCIAL BOARDS TO BE ESTABLISHED IF ONLY TO HAVE PROVINCES RETAIN SEMBLANCE OF LOCAL CONTROL. PROVINCIAL BOARDS WOULD ALLEVIATE MUCH ADMINISTRATIVE WORK OF FEDERAL BOARD AND RELIEVE IT OF MANY ONEROUS DECISIONS AS WELL AS FREE FEDERAL GOVERNMENT FROM NECESSITY BUILD SIZEABLE BUREAUCRACY, WHICH WOULD SUBJECT GOC TO MUCH CRITICISM. PROVINCIAL BOARDS MAY HAVE SOME FLEXIBILITY BUT WOULD HAVE TO FOLLOW BROAD GUIDELINES OF LEGISLATION AND FEDERAL BOARD.

E. GOC WAS FORCED TO ACT NOW BECAUSE WAGES (PARTICULARLY FOR PROVINCIAL AND MUNICIPAL WORKERS) HAD GONE OUT OF CONTROL. ALTHOUGH PRIVATE SECTOR WAGE SETTLEMENTS WERE LESS THAN IN PUBLIC SECTOR, FIRMS SUCH AS ONTARIO HYDRO SET PACE OF INCREASING WAGE SETTLEMENTS, AND SUCH SETTLEMENTS WERE CAUSING RAPID INFLATION RISE.

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F. IN ONE SENSE, GOC WAS LEGISLATING ADVICE TO ITSELF ON RESTRICTING WAGE DEMANDS BY PUBLIC SERVANTS. HOWEVER, SINCE GOVERNMENT WORKERS HAD RIGHT TO STRIKE, GOC WAS REMOVING THAT RIGHT TO STRIKE OVER WAGE DEMANDS FOR ALL PRACTICAL PURPOSES. AFTER LEGISLATION IN FORCE, WHEN CIVIL SERVICE UNIONS PRESENT WAGE DEMANDS TO TREASURY BOARD WITH THREATENED STRIKE ACTION IF DEMANDS NOT MET, BOARD WILL BE ABLE TO SAY "OUR HANDS ARE TIED BY LAW OF THE LAND".

G. IN CASE OF POSTAL WORKERS WHO ARE IN MIDST OF TAKING STRIKE VOTE, POSTMASTER GENERAL MACKASEY WAS WRONG WHEN HE PUBLICLY STATED WORKERS WOULD BE EXEMPT FROM GUIDELINES. GUIDELINES INCLUDE PROVISION FOR TWO EXEMPTIONS FROM 10 PERCENT RULE: WORKERS WHOSE EXPIRED CONTRACTS WERE SIGNED BEFORE JANUARY 1, 1974, AND WORKERS WHO TRADITIONALLY HAVE HAD WAGES COMPARABLE TO ANOTHER GROUP OF WORKERS WHO HAVE GAINED A MORE RECENT AND FAVORABLE SETTLEMENT. ON BOTH GROUNDS, INSIDE POSTAL WORKERS QUALIFY AND WILL PROBABLY GAIN SAME SETTLEMENT AS LETTER CARRIERS (38 PERCENT OVER 30 MONTHS). HOWEVER, DECISION WOULD BE MADE BY ANTI-INFLATION REVIEW BOARD.

H. DECISION ON CONTROLS WAS NOT OCCASIONED BY TURNER'S RESIGNATION. (THIS COMMENT WAS FOLLOWED BY KIRBY'S ANALYSIS OF TURNER'S PRESENT POLITICAL SITUATION WHICH KIRBY BELIEVED GREATLY DIMINISHED. HIS ANALYSIS WAS THAT TURNER WAS FINISHED AS EFFECTIVE OPPONENT OF TRUDEAU SINCE PUBLIC QUICKLY FORGOT EX-MINISTERS.)

I. TRUDEAU HAD MADE TELEVISION ADDRESS ONLY TWICE BEFORE (IN 1970 DURING QUEBEC DISTURBANCES AND IN 1972 DURING OIL CRISIS) AND EACH TIME HIS GALLUP RATING HAD SOARED WHEN HE ANNOUNCED "INEQUITABLE" GOC POLICY. CANADIAN PUBLIC EXTREMELY RECEPTIVE TO "TAKE-CHARGE" IMAGE OF PM, AND EVEN IF ANTI-INFLATION PROGRAM WAS INEQUITABLE, TRUDEAU'S STANDING WAS ENHANCED BY HIS "DOING SOMETHING ABOUT INFLATION". KIRBY DISMISSED IDEA THAT TRUDEAU WOULD BE SEVERELY CRITICIZED FOR ADOPTING PC POLICY OF WAGE AND PRICE CONTROLS AGAINST WHICH TRUDEAU HAD FOUGHT AND WON LAST ELECTION. BASIC PHILOSOPHY OF LIBERAL PARTY, ACCORDING TO KIRBY, WAS TO STEAL PROGRAMS FROM BOTH PC AND NDP. KIRBY THREE WEEKS AGO TOLD POL COUNSELOR HE FEARED LIBERAL PARTY CONVENTION WOULD GIVE 20 TO 25 PERCENT VOTE IN CONFIDENTIAL

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FAVOR OF HOLDING LEADERSHIP CONVENTION AND THAT THIS WOULD BE SERIOUS BLOW TO TRUDEAU'S PRESTIGE.

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

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C O N F I D E N T I A L SECTION 2 OF 2 OTTAWA 3965

HE NOWS SAYS THAT ANNOUNCEMENT OF ECONOMIC PROGRAM PUTS TRUDEAU IN POSITION OF EXERTING STRONG LEADERSHIP, ABSENCE OF WHICH HAD LED TO GRUMBLING WITHIN PARTY, AND KIRBY NOW HAS NO QUALMS ABOUT PARTY CONVENTION IN EARLY NOVEMBER.

J. GOC RECOGNIZED PROBLEMS CONTROLS COULD BRING, BUT IT HAD TRIED "EVERYTHING ELSE" TO BRING INFLATION DOWN. AGAINST CRITICISM OF CONTROLS, GOC MINISTERS, WHO WOULD SHORTLY EMBARK ON CROSS-COUNTRY SELLING JOB, WOULD ASK WHAT ALTERNATIVE CRITICS WOULD PROPOSE.

K. AMONG PROBLEMS CONSIDERED, FOR WHICH NO SOLUTION YET FOUND, WAS POSSIBILITY OF TWO-TIER PRICING SYSTEM ALREADY IN OPERATION FOR PETROLEUM AND NATURAL GAS WHERE DOMESTIC AND EXPORT PRICES DIFFER. TO PREVENT EXCESS PROFITS AND/OR DOMESTIC SHORTAGES OCCURRING WHERE EXPORT PRICE WOULD BE CONSIDERABLY ABOVE DOMESTIC PRICE, GOC MAY BE FORCED INSTITUTE EXPORT CONTROLS AND/OR EXPORT TAX. (KIRBY ACKNOWLEDGED PROBLEMS THIS ACTION WOULD GIVE CANDAD IN GATT.)

1. ANTI-INFLATION PROGRAM MAY BE IN CONFLICT WITH GOC OIL POLICY WHICH AIMS TOWARD DOMESTIC PRICES REACHING WORLD LEVELS. (PROGRAM ALLOWS FOR INCREASED PRICES ONLY ON BASIS OF INCREASED COSTS, AND "IT ISN'T GOING TO COST ANY MORE
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FOR ALBERTA OIL TO BE PRODUCED.")

M. PROGRAM WILL COVER PROVINCIAL CIVIL SERVANTS EVEN IF PROVINCES FAIL ENACT SIMILAR LEGISLATION. THUS, WITH CROWN CORPORATIONS AND OTHER PROVINCIAL WORKERS SUBJECT TO CONTROLS, PROGRAM WILL EMBRACE 70 TO 80 PERCENT OF WORK FORCE. (REPEATED QUESTIONING BY EMBOFFS ON HOW KIRBY ARRIVED AT THIS

FIGURE, SINCE FINMIN MACDONALD HAS REPEATEDLY SAID ONLY 4.3 MILLION WORKERS COVERED OUT OF 9.4 MILLION PERSONS EMPLOYED, FAILED SHAKE KIRBY'S ASSERTIONS.)

N. SINCE 1950 GOC HAS STEADILY INSERTED ITSELF INTO MARKET ECONOMY. THIS ACTIVITY RESULTED FROM NATURE OF ECONOMY ("BRANCH-PLANT OPERATIONS"), WHICH LACKS COMPETITION FOUND IN OTHER INDUSTRIAL COUNTRIES, AND MISTRUST OF BIG COMPANIES BY GOC AUTHORITIES. ANTI-INFLATION PROGRAM IN MERELY EXTENSION OF THIS LONG-TIME THRUST OF GOC POLICY. DESPITE TERMINATION DATE, SOME FORM OF CONTROLS COULD CONTINUE FOR SEVERAL YEARS.

O. WHILE ANY SYSTEM OF CONTROLS ANYWHERE FACES SERIOUS PROBLEMS, CHANCES OF THIS PROGRAM SUCCEEDING IN CANADA SOMEWHAT ENHANCED BY TWO SPECIAL CHARACTERISTICS OF CANADA: (1) FACT THAT THERE HAS FOR SOME CONSIDERABLE TIME BEEN MUCH GREATER GOVERNMENT INTERVENTION IN ECONOMY IN CANADA THAN FOR INSTANCE IN U.S.; AND (2) FACT THAT SHEER GEOGRAPHY HAS FORCED MANY BUSINESS ENTERPRISES INTO OBLIGOPOLISTIC STRUCTURES (E.G., 4 SUPER-MARKET CHAINS TOTALLY DOMINATE THAT INDUSTRY) AND THUS CONTROLS EXERTED ON FEW GIANT FIRMS CAN EFFECTIVELY CONTROL ENTIRE INDUSTRY.

P. PROGRAM WOULD HAVE EFFECT OF SOLIDIFYING EXISTING WAGE INEQUITIES IN CANADA (E.G., EXTREMELY HIGH WAGES IN B.C. AND RELATIVELY LOW WAGES IN MARITIMES) BUT IN ABSENCE OF CONTROLS TRENDS WERE TOWARD INCREASING EXISTING INEQUITIES. GOC IS NOT WORRIED ABOUT LEGISLATION BEING HELD UP IN PARLIAMENT BY NDP OPPOSITION; PC IS COMMITTED, AND IN ANY CASE, ORDER-IN-COUNCIL HAS ALREADY ESTABLISHED REVIEW BOARD AND SET IN MOTION SYSTEM OF CONTROLS.

Q. FOR COSMETIC REASONS, GOC IS HOPEFUL BUT NOT OVERLY SO THAT FIRST TEST CASE BEFORE BOARD WILL BE ON PRICES SINCE LABOR WOULD

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BE MORE INCLINED ACCEPT GOC GOOD FAITH IF BOARD COULD ROLL BACK PRICE INCREASE AS FIRST ORDER OF BUSINESS.

R. BOARD WILL TACKLE GOC MARKETING BOARDS AND IS EXPECTED TO WIN OUT, AGRICULTURE MINISTER WHELAN NOTWITHSTANDING.

3. COMMENT: KIRBY CLOSELY INVOLVED IN ELABORATING NEW TRUDEAU ECONOMIC PLAN AND THUS IN POSITION SPEAK AUTHORITATIVELY ON FACTS OF PROGRAM. HOWEVER, SINCE HIS PERSONAL PESTIGE BOUND UP IN SUCCESS OF PROGRAM AND OF TRUDEAU, HE MAY BE SOMEWHAT OPTIMISTIC OVER PROGRAM'S PROSPECTS AND ITS FAVORABLE EFFECT OF TRUDEAU'S POLITICAL POSITION. HE MAY ALSO BE PREMATURE IN PREDICTING TURNER'S POLITICAL DEMISE.

4. KIRBY WAS PERHAPS ALSO TOO SANGUINE ABOUT GOC'S ABILITY TO WITHSTAND LEGAL AND CONSTITUTIONAL CHALLENGE TO PROGRAM AND COPE WITH BUSINESS AND LABOR'S ABILITY TO CIRCUMVENT PROGRAM.

5. KIRBY'S EMPHASIS ON POLITICAL RAMIFICATIONS OF ANTI-INFLATION PROGRAM ALSO RAISES QUESTION WHETHER GOC HAS GIVEN SUFFICIENT THOUGHT TO POSSIBLE LONGER-RUN ECONOMIC CONSEQUENCES OF PROGRAM, E.G., THE PROGRAM'S EFFECT ON BUSINESS INVESTMENT (WHICH, BECAUSE IT REMAINED HIGH, WAS MAIN REASON FOR RELATIVE MILDNESS OF RECENT RECESSION IN CANADA), FUTURE RESOURCE DEVELOPMENT, NEED FOR IMPROVED PRODUCTIVITY AND EFFICIENCY, AND REACTIONS BY TRADING PARTNERS TO TWO-PRICE SYSTEM AND ANY BORDER ACTIONS NEEDED TO SUSTAIN IT. IT REMAINS TO BE SEEN WHETHER GOC WILL BE CONTENT WITH SHARP SHORT-TERM PSYCHOLOGICAL EFFECT OF PROGRAM TO BRAKE INFLATIONARY EXPECTATIONS AND EXCESSIVE WAGE DEMANDS OR WHETHER IT WILL MAKE ALL-OUT EFFORT TO CONTROL ECONOMY THROUGH DETAILED INTERVENTION BY REVIEW BOARD, THUS CREATING ECONOMIC DISTORTIONS WHICH IN LONGER RUN CAN CREATE SEVERE PROBLEMS FOR ECONOMY..
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